

Service Date: July 31, 1979

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MONTANA

IN THE MATTER of the Application) DOCKET NO. 6618
by the MONTANA POWER COMPANY for)
authority to adopt increased rates) ORDER NO. 4521a
for natural gas service in the)
State of Montana.)

FINDINGS OF FACT

1. By application filed September 29, 1978, the Montana Power Company (MPC or Applicant) sought authority from this Commission to increase rates for gas service provided its customers in the State of Montana. The proposed increase was \$23.35 million of additional yearly revenues.

2. Following legal notice, hearings on Phase I of Docket No. 6618 were held March 20 - March 23, 1979, and on May 21, 1979. Public hearings were also held at various locations in Montana.

3. Through Order No. 4521, served on June 26, 1979, MPC was authorized to submit rate schedules designed to increase annual revenues \$15.49 million.

4. On July 20, 1979 the Montana Consumer Counsel (MCC) filed a motion for reconsideration of Order No. 4521. The motion urged the Commission to reject the following portion of Finding of Fact 71D pertaining to the deferral of taxes associated with construction work in progress (CWIP) interest

expense:

"Tax benefits associated with CWIP interest expense have been deferred in this proceeding. The Commission is of the opinion that since the current ratepayer is not called upon to support CWIP in the rate base, that the tax benefits associated with CWIP interest expense be deferred, so that the rate payer who will support current CWIP when it becomes plant in service will receive the tax benefits associated with this item.

5. After several pages of discussion the motion concludes that the record in this docket is not complete enough to support deferral of CWIP interest expense tax deductions. The Commission agrees with this conclusion and therefore finds that the above paragraph should be deleted from Finding 71D, with the result that associated amounts will be flowed through rather than deferred. Should this issue reoccur, as the motion alleges, relevant hypothetical examples and general philosophies will be sought, but more importantly a record dealing with the issue as it relates specifically to the utility over the long run will be sought.

6. On July 23, 1979, the Commission accepted a motion for reconsideration filed by MPC. The motion asserts the following:

A. The return on common equity found in Order No. 4521 is not compensatory. Finding No. 38 in Order No. 4521 states in part: "Combining the two components of the DCF formula, Evans (a MPC witness) computed a cost of capital in the 12.75 to 13.25 percent range while Wilson's (a MCC witness) figure was 12.65 percent; application of the regression equation described above to Montana Power's equity

ratio raised the latter's estimate to 12.72 percent. Despite some differences in procedure, Evans and Wilson found very similar costs of capital, suggesting the basic soundness of their analysis." Based on the record, the Commission therefore rejects the Applicant's motion.

B. An allowance for market pressure and issuance costs should be approved. Finding 40 in Order No. 4521 states that the Commission believes these costs should be considered as cost of service items in future applications. Since equity has not been issued since 1975, associated costs were not allowed in Order No. 4521. The Commission rejects the Applicant's motion.

C. The capital structure found in Order No. 4521 overstates debt and understates equity. The Commission rejects the Applicant's motion as findings on this subject are based on two well-reasoned regulatory philosophies - namely, that capital allocations using plant should be consistent with rate base plant amounts and the Commission's right to consider known and measurable changes in rate proceedings.

D. The Commission's findings with respect to the sources of natural gas supply constitute an unlawful invasion of management prerogative. In this instance, the Commission considers the gas supply specified in the order to be in the best interests of the ratepayer and obtainable by the Applicant. The Commission, however, is not usurping management prerogative.

The Applicant's motion was unanimously denied July 23, 1979.

7. Findings of fact in Order No. 4521 are incorporated by reference as findings of fact in this order, except as

amended by Finding 5 above.

CONCLUSION OF LAW

1. The conclusions of law in Order No. 4521 are incorporated by reference as the conclusions of law in this order.

ORDER

1. Order No. 4521 is hereby incorporated by reference into this order with the following exception: Applicant shall file rate schedules reflecting findings and determinations in 4521 and Finding of Fact No. 5 in this order.

DONE IN OPEN SESSION at a meeting of the Montana Public Service Commission held on July 23, 1979 by a vote of 5-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.
(SEAL)

Gordon E. Bollinger, Chairman

Clyde Jarvis, Commissioner

Thomas J. Schneider, Commissioner

James R. Shea, Commissioner

George Turman, Commissioner

ATTEST:

Madeline L. Cottrill
Secretary

(SEAL)

NOTICE: You are entitled to judicial review of the final decision in this matter. If-no Motion For Reconsideration is filed judicial review may be obtained by filing a petition for review within thirty (30) days from the service of this order. If a Motion for Reconsideration is filed, a Commission order is final for purpose of appeal upon the entry of a ruling on that motion, or upon the passage of ten (10) days following the filing of that motion. cf. the Montana Administrative Procedure Act, esp. Sec. 2-4-702, MCA; and Commission Rules of Practice and Procedure esp. 38-2.2(64)-P2750, ARM.